

ΘX FOR LIFE

FALL 2004

Year End Planning — Counting Your Blessings and Making an Impact

Dear Alumnus Brother,

Welcome to the Fall issue of *ΘX For Life*, the third and final issue for 2004. The end of the year often brings with it a flurry of special events and excitement, which is why we were determined to get this issue to you in October before things really get hectic and you hardly have ten minutes to give this a read through. The upcoming holidays are a wonderful time to celebrate with friends and family. The end of the year is also a time when many people remember the charitable causes they hold dear. Annual gifts, often given within the next three months, are very important to the work of the Foundation Chapter of Theta Chi Fraternity, Inc. However, you may also want to consider making a gift that speaks far more clearly of who you are and what you've accomplished in your life— a gift with a current *and* a future impact.

In this issue of *ΘX For Life*, you are offered strategies that will help you make a gift with added impact while taking full advantage of the incentives the tax code offers to those who support our informal mission of "Helping Brothers Help Brothers." There are ways of giving that can allow you to provide for your family *and* for our brothers in Theta Chi Fraternity. One way to get more out of your giving is to coordinate it with your own long-term needs and goals.

Though the financial markets have gradually recovered from the losses endured in 2000-2003, the rough waters have not quite subsided. Interest rates, which

had recently reached historic lows, are beginning to rise, and the result may be to level off the real estate market after several years of robust growth. Financial analysts continue to recommend diversification in an individual portfolio, and many endorse planned giving as an effective tool to rebalance your allocation of stocks, bonds, and other investments in a tax-efficient way.

Congress did not enact much tax legislation this year, but the successive tax changes in 2001, 2002, and 2003 have had a cumulative effect on the financial planning landscape. By understanding how tax laws affect you, you can better appreciate the tax advantages associated with charitable gifts. And by consulting with your financial advisor, and contacting the foundation's Development Office, you can be sure of what and how to give to the Foundation Chapter of Theta Chi Fraternity, Inc.

If you would like more immediate information about giving and tax planning tips, I invite you to send for our free booklet, the *Taxpayer's Home Companion*. Completely updated, it can be a valuable reference tool for you and your financial advisor. All the best to you and yours as 2004 gives way to 2005!

Faternally,



El Ahlwardt
Director of Development



Tax-Deductible Year-End Gifts to Consider

Throughout 2004, some of our brothers gave a part of their investment portfolio rather than cash. Often, they will enjoy certain tax benefits from the gift of a particular asset. Here are some of the most tax-advantageous assets you can give before 2004 comes to an end.

Appreciated Stock

Since the financial markets have generally rebounded in the past 18 months, the gift of an appreciated asset is an attractive possibility. If you have stocks, bonds, or mutual funds that have appreciated in value, the gain will be subject to tax upon sale. The capital gains tax rate is 15 percent for most assets held longer than one year. Making a gift of appreciated assets to the Foundation Chapter, Inc., is a good way to avoid capital gains tax. You can usually take the full market value of the asset on the date of the gift as a charitable deduction, which will reduce your income tax if you itemize deductions.

For example, Brother Dan Hazeldon owns 100 shares of XYZ stock worth approximately \$12,000. Dan purchased the shares in 1999 for \$2,000 and watched the price soar in its first year, though the stock has not done much since that time. If Dan were to sell the stock and pocket the cash, he would have to

pay \$1,500 in capital gains taxes (gain = \$10,000; $15\% \times \$10,000 = \$1,500$.) If Dan donates his 100 shares of XYZ stock to the Foundation Chapter, Inc., he avoids the capital gains tax. Furthermore, Dan enjoys a tax deduction for the full value of the gift: \$12,000. Assuming that Dan is in the 35 percent income tax bracket, this results in a tax savings of \$4,200. Considering the combined tax savings in avoiding the capital gains tax and the charitable deduction, the after-tax cost of Dan's gift of \$12,000 of XYZ stock is only \$6,300 ($\$12,000 - \$1,500 - \$4,200$).

Bonds

Many bonds have significantly increased in value due to the prevailing low interest rates. However, rates are likely to increase, which means the fair market value of bonds is likely to decrease. Keep in mind, too, that the interest from taxable bonds will be taxed as ordinary income rather than at the special 15 percent rate for qualified



dividends. So, it may be an advantageous time to lighten your holdings in bonds. Consider using some of those bonds to make your charitable gift. A gift of appreciated bonds held long-term will produce a double tax advantage — avoiding capital gains tax while securing a charitable deduction.

Mutual Funds

A gift of mutual fund shares may be another attractive option since the tax on the income from mutual fund transactions became more complicated after recent tax law changes. Qualified dividends that pass through the mutual fund are taxed at the new 15 percent tax rate on dividends; however, most interest continues to be taxed at ordinary income tax rates, which can be as high as 35 percent. A gift of mutual fund shares may be a wise choice since the gift provides all of the advantages of gifts of stocks or bonds.

PLANNING TIP

Determining the cost basis of stocks held over a long period of time can be difficult and time consuming. If the company has a dividend reinvestment plan, or there has been a merger, or a stock split, or the stock was inherited, then you have the time-consuming task of determining the cost basis. By donating the stock to us, the cost basis question becomes moot.

Collectibles, Art, and Other Tangible Personal Property

The 19th century philosopher Thoreau encouraged others to “Simplify, simplify.” You may want to follow this advice and let go of some of the coins, antiques, art-works, etc. that you have enjoyed over the years. Perhaps your interest has faded, or perhaps you have not the time or space to devote to your collection. The taxable long-term gain from the sale of collectibles is usually taxed at 28 percent (not 15 percent). However, if you make a gift of the same property, you avoid the high capital gains taxes and secure an income tax deduction. Instead of *eBay*, consider us.

Consult your financial advisor to determine if your gift will qualify for the maximum charitable deduction. You will also likely need an independent appraisal of the value of the property. Please contact our Development Office about such possibilities.

Gifts that Give Back

It may seem strange that a gift to the Foundation Chapter, Inc., can provide an income stream to the donor, but it is true. The **charitable remainder trust**, a so called “life-income gift,” offers the financial flexibility many donors need in order to commit a large sum to us.

Some of our brothers want to retain an income from their potential gift. Fortunately, there are several ways to convert low-performance assets into a productive income stream by making a gift to us. For instance, if you own stock that produces little or no dividends, consider making a gift of that stock to a charitable remainder trust (CRT). Although you can receive a lifetime income from the CRT, there is no capital gains tax when you transfer stock to the trust. Here is an example:

Thurmond Viking (age 65) created a CRT with 10,000 shares of ABC stock on the advice of his financial advisor, who had suggested that he reduce his reliance on tech stocks and further diversify his portfolio. He bought his original 2500 ABC shares in 1992 for \$15,000. After two “2 for 1” stock splits and good returns, his investment is now worth almost ten times its original value (\$140,000).

If Thurmond sells the stock, he will pay a substantial capital gains tax, even at the relatively low 15% rate. Instead, he chooses to create a CRT with our organization as the remainderman. Under the terms of the trust, he will receive an annual income stream of \$8,400 for his life. This arrangement is known as a charitable remainder annuity trust, or CRAT.

Brother Viking is pleased with the capital gains tax savings, the annual payout, and the opportunity to make a substantial gift to us which otherwise might not have been possible.

But that is not all. In addition to avoiding an immediate capital gains tax, Thurmond will enjoy a significant income tax charitable deduction for the expected value of our remainder interest.

The amount of any charitable deduction depends on several factors including your age, the payout rate of the trust, and the type of trust you choose. Your financial advisor should be able to provide a specific illustration of how this might work in your particular situation.



You Can Depend On Us

When you make a planned gift, it is important to have a team of professionals you can depend on.

At Theta Chi, we believe in good stewardship. We believe that every gift — small or large — can have an impact on the future of our Fraternity. And, we believe that every brother should have the opportunity to help shape that future.

Our development team is dedicated to helping you understand exactly how your gift will be used. And, we are prepared to work with you and your financial advisors so that you receive the best possible tax benefits. That's part of good stewardship, too.

To find out how you can have a lasting impact on the brotherhood of Theta Chi, please contact us at the phone or email below.

Board of Directors

Foundation Chapter of Theta Chi Fraternity, Inc.

President: James J. Moylan (Gamma Lambda/University of Denver '69)

Vice President: J. Bruce Hoffmann (Tau/University of Florida '69)

Secretary: Warren E. Hoffman II (Alpha Iota/Indiana University '76)

Treasurer: David B. Foltz (Beta Sigma/Lehigh University '80)

Director: James R. Morgan (Delta Xi/Valparaiso University '73)

Directors

Emeritus: Howard R. Alter, Jr. (Omega/Pennsylvania State University '41)

David E. DeVol (Gamma Theta/San Diego State University '59)

Planned Giving Committee

Foundation Chapter of Theta Chi Fraternity, Inc.

Chairman: James J. Moylan (Gamma Lambda/University of Denver '69),

Members: Dr. Wesley K. Wicker (Alpha Phi/University of Alabama '79)

Carlton Bennett (Zeta Pi/Old Dominion University '72)

William Haggstrom (Alpha Pi/University of Minnesota '58)

Kevin Clasen (Certified Financial Planner, West Point Financial)

William D. Jenkins (Centennial Coordinator,
Phi Kappa Tau Fraternity)

El Ahlwardt (Gamma Rho/Florida State University '73)

Your Thoughtfulness Counts

Thoughtful planning is the key to more effective giving. As a first step, we invite you to send for the 2004 edition of our *Taxpayer's Home Companion*. The booklet reviews recent income tax changes and contains many important planning tips. You can request your copy by sending us the enclosed card. If there is anything we can do to assist you or your professional advisors with your planning, do not hesitate to call us.



El Ahlwardt, Director of Development
Foundation Chapter of Theta Chi Fraternity, Inc.

3330 Founders Road

Indianapolis, IN 46268-1333

317.824.1881 • 317.824.1908 (fax)

el@thetachi.org

This publication is prepared for the general information of our brothers. Its purpose is to point out current developments which may be helpful in your tax and financial planning. You should consult your attorney or other advisor as to the applicability of any item to your personal situation. All brothers named in this publication are fictitious and provided for illustrative purposes only.